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¶1. (U) Summary. This is Volume 8, issue 40 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- New President Addresses Investor's Fears
- Current Account Outlook Bleak Despite
  Narrower Trade Deficit
- PMI Data Shows Some Signs of
  Improvement in Manufacturing Activity
- Large Businesses Bear Brunt of Tax Burden
- SA Begins Preferential Trade Talks with India
- Transnet Port Terminals Appoints
  New Operations Chief
- Cape Town Firm Launches Africa's
  First All-Electric Vehicle
- Opposition Party Seeks an End
  to the SAA Bottomless Pit
- Africa Airline Passenger Volume Expected to Rise
  Despite Global Downturn
- Government Change Clouds Eskom Projects
- Reserve Margin Remains Low as Eskom
  Starts its Summer Maintenance Season
- SA Ponders Business Spin-offs from Solar
- Dow Jones Sustainability Index Lists Sasol
- No Plan for State-owned Mining
  Company "at the Moment"
- MTN Acquires Firms in the Ivory Coast
End Summary.

New President Addresses Investor's Fears

¶2. (U) New South African President Kgalema Motlanthe reiterated government's commitment to economic growth, employment creation, and poverty reduction following the ousting of President Mbeki. Motlanthe said that government would remain "true to the course that we have set", suggesting that there are unlikely to be any significant changes to economic policies in the near- term. However, policies such as inflation-targeting and running a budget surplus may come under increasing pressure after next year's elections (scheduled for next April-July). In fact, some policies are already under the spotlight from some of the ANC alliance partners. For instance, South African Communist Party (SACP) General Secretary Blade Nzimande said that the party would use an

alliance economic summit this week to press for changes, adding that "those who say there won't be any policy change - sorry, we don't agree". (ABSA Capital, September 29, 2008)

Current Account Outlook Bleak Despite
Narrower Trade Deficit

¶3. (U) South Africa's trade balance narrowed from -R14.3 billion (-$1.7 billion) in July to -R5.1 billion (-$638 million) during the month of August. The improvement was largely a result of positive developments in the minerals sector. Petroleum imports fell by R8.7 billion ($1.1 billion) from July to August after rising R8.1 billion ($1 billion) from June to July. Despite the August improvement, a large current account deficit for 2008 is still expected. Economists estimate that the current account deficit will widen from 7.3% of gross domestic product in 2007 to close to 8% for 2008. From a fundamental perspective, the large current account deficit continues to pose a depreciation risk to the rand, but for now the focus is on global developments. Potential FDI inflows in the ICT and steel industries, coupled with the recent uptick in the gold price, could be supportive for the rand with a bias towards strength in the near-term. (ABSA Capital, October 1, 2008)
Qin the near-term. (ABSA Capital, October 1, 2008)

PMI Data Shows Some Signs of
Improvement in Manufacturing Activity

¶4. (U) The Purchasing Managers Index (PMI), which measures business conditions in the manufacturing sector, remained unchanged at 47 in September. This marks the fifth consecutive month when the index

has remained below 50 (a below-50 reading suggests a contraction in manufacturing activity). The PMI continues to point to lackluster manufacturing activity, but there are some signs that other business indicators may be deteriorating at a slower pace. The business activity sub-index, which tends to be a leading indicator of production trends, fell from 44.4 in August to 42.6 in September. However, inventory levels rose and purchasing managers' expect business conditions to improve in six month's time. The new sales orders sub-index rose from 44 in August to 45.3 in September. On balance, the report suggests that manufacturing activity remains under pressure as domestic and international economic conditions continue to worsen. (ABSA Capital, October 2, 2008)

Large Businesses Bear Brunt of Tax Burden

¶5. (U) South African Revenue Service (SARS) Chief Operations Officer Edward Kieswetter said South Africa remains very dependent on large business for direct and indirect taxes. Speaking at a recent tax administration conference in Johannesburg, Kieswetter said that 60-70% of SARS revenue is collected from large businesses every year. SARS' large business center collected R150 billion ($18.3 billion) for the 2006-07 financial year. Since its establishment in September 2004, the center has grown from 9,100 taxpayers to 20,900 taxpayers. (Business Day, September 30, 2008)

SA Begins Preferential Trade
Talks with India

¶6. (U) South Africa and India have begun talks on a preferential trade agreement. This is in line with South Africa's ambitions to remap patterns traditionally centered on North-South trade relationships and to promote closer South-South ties. However, some trade commentators have said that despite political commitments, the

level of ambition of the negotiations is too low to draw in exporters. The agreement would supposedly open 1,000 additional product lines for tariff liberalization, but there are doubts that even this ambition would be achieved. The South African Department of Trade and Industry announced the launch of the trade talks last week, urging industry to make inputs in the compilation of the list of goods of export interest to the country. Trade Expert Danie Jordaan said the Southern African Customs Union (SACU) has already compiled a tentative list, which includes agricultural and agri-processed goods, chemicals, automotive parts and metals, machinery, and engineering equipment. India is working on a similar list. (Tralac Newsletter, October 1, 2008)

Transnet Port Terminals Appoints
New Operations Chief

¶7. (U) State-owned transport and logistics group Transnet recently appointed Solly Letsoalo to the position of Port Terminals (TPT) Chief of Operations, and made a number of other management changes. Letsoalo will oversee a team of divisional executive managers, who will oversee the container, bulk, multi-purpose, and automotive sectors. Siyabulela Mhlaluka, who currently holds the position of Qsectors. Siyabulela Mhlaluka, who currently holds the position of Development Executive at the Ngqura container terminal (Eastern Cape province), has been appointed Divisional Executive Manager for the container sector. Terminals Transformation Executive Zeph Ndlovu will head the bulk sector division; and Victor Mkhize has been promoted from his position as Business Unit Executive at the Richards Bay multi-purpose terminal to Divisional Executive Manager for the multi-purpose and automotive sectors. Lastly, Graham Braby, who served as Chief of Operations for the bulk and automotive sectors at TPT since 2005, has been appointed General Manager for Transnet Group's Richards Bay corridor. The Richards Bay corridor is one of four intermodal routes of port-rail integration where Transnet has specifically committed to improving productivity and efficiency to meet the future long-term demand for freight transport. A Transnet spokesperson said, "these individuals have played a key role in many of the strategic and operational successes we have enjoyed at TPT in the recent past and we look forward to

their continued problem-solving and visionary leadership as they assume their new roles." (Engineering News, September 29, 2008)

Cape Town Firm Launches Africa's
First All-Electric Vehicle

¶8. (U) Cape Town-based transport firm Optimal Energy will launch Africa's first all-electric, zero-emission vehicle. The six-seater, multipurpose vehicle named "Joule" has been hailed as a celebration of South African engineering ingenuity and will make its global debut at the Paris Motor Show in October. Optimal CEO Kobus Meiring said the sector must seek out long-term environmentally sustainable solutions to address issues of energy resource depletion and climate change from dependence on finite fossil fuels. The Joule's chassis has been designed to accommodate two, large-cell, lithium ion battery packs. It will take about seven hours to recharge a Joule pack for a 200 kilometer driving range, with two packs providing a 400 kilometer range. Meiring said he decided to locate the production facility in South Africa because the country is a cost-effective manufacturer and exporter of cars. The project received funding and support from the Department of Science and Technology and the Industrial Development Corporation (Engineering News and Business Day, October 1, 2008)

Opposition Party Seeks an End
to the SAA Bottomless Pit

¶9. (U) Opposition Democratic Alliance (DA) public enterprises

spokesman Manie van Dyk said government should finally put the lid on the bottomless pit of South African Airways (SAA), which imposed a heavy and seemingly limitless burden on taxpayers. He was responding to a briefing provided by the Department of Public Enterprises (DPE), which noted that SAA had absorbed R12 billion ($1.5 billion) in government financial support since 2004. SAA's losses totaled R13.7 billion ($1.7 billion) between 2002 and 2008. The $1.7 billion in losses exclude restructuring costs of R1.3 billion ($212 million) and interest paid on loans raised from financial institutions with government guarantees. Van Dyk blamed poor management for the airline's woes, and called for it to be privatized to spare taxpayers any further burden. Poor management, he said, was the reason for 240 technician vacancies and 53 pilot and 217 technician resignations last year. He also called for an independent forensic investigation into SAA's finances.
Newly-appointed DPE Minister Brigitte Mabandla disagreed with Van Dyk's criticism and expressed strong support for SAA CEO Khaya Ngqula and his team. No consideration was being given to replacing the CEO, whose contract expires in 2010. Instead, she commended the CEO and current management team on the implementation of a comprehensive and challenging restructuring program that has enabled the airline to post an operating profit (prior to restructuring costs) of $15 million at the end of 2007-08. Government officials have confirmed media reports that the airline has asked for R2-3 billion ($250-375 million) from the National Treasury this financial year to offset losses sustained in the last financial year.
Qyear to offset losses sustained in the last financial year.
(Business Day and Business Report, October 2, 2008)

Africa Airline Passenger
Volume Expected to Rise
Despite Global Downturn

¶10. (U) Africa has emerged as one of the three strongest markets in the latest data released by the International Air Transportation Association (IATA), as the struggling airline industry battles to keep afloat amid the smallest growth in international passenger volumes in five years. IATA's third quarter data on passenger growth found that the number of people flying internationally had increased 0.7%, compared with 4.2% growth in the second quarter, and 8% in the previous year. IATA is forecasting anticipated losses in the sector of about $5.2 billion this year and further airline failures. In contrast, Africa's internal passenger growth was 18% during the same period. Growth in travel between Africa and the

Middle East continued to be strong at 6.9%, and travel between Africa and the Southwest Pacific was 9.7%. According to IATA, the strongest markets in July were within South America and markets connected to the Middle East and Africa. This is positive news for South Africa's cash-strapped national carrier South African Airways (SAA), which has focused expansion plans on Africa. SAA CEO Khaya Ngqula believes that there is room for future growth, especially on routes to Western Africa. SAA said part of its restructuring plans would involve expanding services into the rest of Africa with Star Alliance's assistance. Ngqula said the two biggest challenges facing the airline were rising fuel prices and obtaining approval from the government for access to some African countries. (Business Day, September 30, 2008).

Government Change Clouds
Eskom Projects

¶11. (U) A change at the helm of the Department of Public Enterprise (DPE), which runs state-owned power utility Eskom, may delay projects to expand electricity generation and mitigate the power crisis gripping the country. New South African President Kgalema Motlanthe surprised analysts by naming former Department of Justice Minister Brigitte Mabandla as the new DPE Minister. Analysts said Mabandla would have to get to grips with plans to build a slew of new power stations and help Eskom raise cash internationally, in the

midst of a global credit squeeze. Her term will last six-eight months before the scheduled general elections, leaving little time for meaningful changes and the possibility of further change in the leadership of the DPE. One of the key tasks for Mababandla will be approval of huge deals to expand power generation, including a new nuclear power plant, contested by Westinghouse and Areva of France. Areva said it expected a decision soon, but added that Mbeki's exit could have pushed back the timing. Mabandla has not publicly spoken of her plans since being sworn in September 26, but analysts do not expect her to radically change current policies. (Engineering News, September 30, 2008)

Reserve Margin Remains Low as Eskom
Starts its Summer Maintenance Season

¶12. (U) State-owned power utility Eskom's spokesman Fani Zulu affirmed that South African electricity supplies remained strained and vulnerable, because of a low reserve margin. Zulu said Eskom found itself at present in a "bit of a tricky situation because South Africans had instituted savings following the pronouncement of the electricity crisis. As a result, there were no black-outs during the (southern hemisphere) winter. This has given consumers a false sense of comfort." Department of Minerals and Energy spokesman Bheki Khumalo said at the last electricity stakeholder advisory council meeting that South Africa was "not out of the woods yet," as far as the electricity crisis is concerned. Khumalo said if demand was not reduced, Eskom would be forced to embark on emergency measures such as planned and unplanned power outages. Eskom has started its summer maintenance season, already shutting
QEskom has started its summer maintenance season, already shutting down some units. Zulu said for now Eskom had enough money for the needed maintenance, but securing financing for the multi-billion rand expansion program, including nuclear power, was proving difficult. (The Sunday Independent, September 28, 2008)

SA Ponders Business
Spin-offs from Solar

¶13. (U) Department of Trade and Industry (DTI) Chief Director of Industrial Policy Nimrod Zalk said the electricity emergency presents a sizeable new industrial development opportunity for South Africa, citing solar water heating (SWH) as a prime example. "We expect the SWH industry to expand exponentially, deepening its value chains and industrial structure," he said. Eskom General Manager Andrew Etzinger says there is vast untapped potential in the SWH industry, and the training of new SWH installers would result in thousands of new jobs. Johannesburg City Power Managing Director Silas Zimu says City Power plans to install SWHs in all the households in Johannesburg before 2010, introducing tariff

incentives to promote this goal. Eskom is offering a rebate to customers who install SWHs through an Eskom-accredited and South African Bureau of Standards-approved supplier. A number of processes are under way to create a regulatory environment that supports energy efficiency initiatives in South Africa, by implementing SWH and building standards. DTI and Eskom are working to make SWH installation affordable and to augment the skills base to make them widely available. (Engineering News, September 26, 2008)

Dow Jones Sustainability
Index Lists Sasol

¶14. (U) South African petrochemicals group Sasol's Chief Executive Pat Davies announced that Sasol was listed on the Dow Jones sustainability world index at the end of September. Sasol is the first South African company to be included in the sustainability index, which covers 2,500 companies and consists of the top 10% of the largest stocks in the Dow Jones global indexes in terms of their

sustainability and environmental practices. He said that it is a great achievement for Sasol because their previous goal was to get to the top 15% of the oil and gas sector in 2007. Sasol is regarded as one of South Africa's biggest polluters, but the company has an abatement project at Sasol Nitro that converts greenhouse gas nitrous oxide into nitrogen and oxygen as a clean development mechanism. Davies added that Sasol does not sell its carbon credits. Dow Jones Indexes Editor and Executive Director John Prestbo stated that several institutional investors were factoring in sustainability "and a growing number of market participants are integrating long-term economic, environmental and social factors into their analysis". (Business Day, September 26, 2008)

No Plan for State-owned Mining
Company "at the Moment"

¶15. (U) Department of Minerals and Energy spokesperson Sputnik Ratau said there was no plan "at the moment" for the creation of a state-owned mining company as the National Union of Mineworkers (NUM) had proposed at South Africa's Mining Summit in September. He said, "at the moment it's not government policy" to establish and control mines. NUM President Senzeni Zokwana said at the Mining Summit: "Our call is clear and simple. It is for the government to create a government mining company." Zokwana said he was impressed to observe that more than 60% of all oil and gas operations were government-owned during his recent visit to Norway. He added that there is significant state ownership of mines in Botswana, Namibia, and Ghana; and NUM wanted to see the creation of a mining company in South Africa that "not only cared for shareholders, but also for workers." Zokwana, who drew continual applause at the summit, emphasized that the establishment of a state-owned mining company was very urgent. He was not proposing the nationalization of existing mining companies. However, he noted that the government could partner with the private sector where there was an abundance of platinum. The state could take up a shareholding of 51%, and allow the private sector to take up 49%, in return for providing Qallow the private sector to take up 49%, in return for providing infrastructure, finance, and know-how. He noted that diamond miner De Beers was already in partnership with the state in Botswana. Zokwana told the summit that the country was at a critical phase of the Mining Charter review, which was the cornerstone of mining industry transformation, but "we are very far from achieving the objectives we set for ourselves." (Mining Weekly, September 29, 2008)

MTN Acquires Firms in
the Ivory Coast

¶16. (U) South Africa-based ICT firm MTN announced that it had acquired Afnet and Arobase Telecom through its Ctte d'Ivoire subsidiary for an undisclosed amount. The acquisitions were in line with MTN's stated strategy to provide integrated communications solutions in all its markets, and followed similar acquisitions in Nigeria, Cameroon, and Cyprus. "These acquisitions reflect the

progress we are making towards consolidating our business. We believe both Afnet and Arobase will add value to MTN and support our strategy to ensure that the group is well positioned to benefit from a rapidly converging technology market," said MTN CEO Phuthuma Nhleko. Afnet is one of the leading Internet service providers in the Ctte d'Ivoire and offers wireless broadband technology and data services to the general public. Arobase Telecom is the second land-line operator in the Ctte d'Ivoire and had signed a concession agreement with the State of Ctte d'Ivoire, which allows it to offer data services using fiber optics, wireless local loop, and code division multiple access (CDMA) technologies. (Engineering News, October 1, 2008)

LA LIME